

Exhibit

12

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# Project Vegas

**Financial due diligence findings**  
*Focused scope*

**Reliance Restricted**

03 December 2019 | DRAFT



**Reliance Restricted**

[REDACTED]

**Project Vegas****03 December 2019**

At your request and direction, we performed certain due diligence procedures in connection with [REDACTED] the "Client") contemplated investment in NS8 Inc. ("NS8", the "Company", or the "Target").

The procedures we performed are further described in our report. Any differences between the procedures set forth in this report and those set forth in our Statement of Work dated August 13, 2019 under our Agreement reflect modifications that were made at your request or discussed with you during the course of the engagement.

The procedures that we performed do not constitute an audit of Target's historical financial statements in accordance with generally accepted auditing standards, nor do they constitute an examination of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants. Additionally, the procedures do not address the effectiveness of internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act. Also, we performed no procedures to evaluate the reliability or completeness of the information obtained. Accordingly, we express no opinion or any other form of assurance on the historical or prospective financial statements, management representations or other data of Target included in or underlying the accompanying information. While we believe the information obtained is substantially responsive to your request, we are not in a position to assess its sufficiency for your purposes. In addition, we have no responsibility to update this report for events or circumstances occurring after the date of this report.

In performing the due diligence procedures, we have accumulated data, written various memoranda for our own use and the use of other members of the due diligence team, and have had various meetings with representatives of [REDACTED] and the Target. The procedures performed and related findings are presented in the attached financial due diligence report.

With respect to prospective financial information ("PFI") relative to the Target referenced throughout this report, we did not examine, compile or apply agreed-upon procedures to such information in accordance with attestation standards established by the AICPA, and we express no assurance of any kind on the PFI presented. [REDACTED] did not prepare, assemble, formulate, develop or process the PFI data or assumptions used to generate the PFI. We did not assist in the preparation or assembly of the target company's prospective financial information or in the development of any assumptions therein.

We have made factual findings and recommendations about specific assumptions and components of the PFI herein, where [REDACTED] had sufficient evidence to provide a reasonable basis for them. We have not provided any opinion, conclusion or any type of assurance about specific assumptions or components of the PFI or on the PFI as a whole. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility for the achievement of projected results.

This report is intended for use solely by members of [REDACTED] management, its board of directors and its professional advisors. Copies should not be made, nor should this report be distributed to others without our express permission.

Very truly yours,

DRAFT



## Dashboard

### Summary of key findings

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#### Quality of ARR and revenue

Currency: \$ 000	Sep19
Reported monthly revenue	4,091
Reported monthly revenue annualized	49,091

- ▶ The Company's revenue is generated from recurring monthly SaaS fees. Minimal setup is required and no one-time setup or other fees were charged historically. The majority of customers pay one month in advance by credit card with pricing calculated from the prior month's usage. As the Company accounts for transactions on a cash basis, revenue is not recognized until cash is collected, which typically occurs every 15 days as cash is received/pulled from platforms such as Shopify. **A revenue cash proof was performed for Jan19 to Sep19 and no unreconciled differences were noted, indicating revenue recognized is supported by actual cash receipts per bank statements.**
- ▶ Most customers are not on an annual contractual commitment. Management reports MRR as the Company's reported monthly revenue and ARR as the annualization of those amounts. Management provided a monthly MRR export by customer which reconciled to reported monthly revenue within an insignificant difference of \$4k as of Sep19. [REDACTED] requested invoice and payment support for the top 25 customers as of Sep19 and received support for 9 of the top 25 samples selected. Each of the 9 selections with support received agreed to the customer MRR export for the respective period without exception. At Client's discretion, we have not requested the remaining 16 samples selected. [REDACTED] **should take into consideration customer upgrades and downgrades reported within MRR may be on a lag of up to one month. As historical monthly churn + expansion is less than 0.1% of MRR, this lag impact is not expected to be significant to MRR reported.**

#### Quality of financial information

Currency: \$ 000	Sep19
<b>Balances per trial balance</b>	
BofA checking	23,745
Dutch BV coh	722
SVB (checking)	11,536
Bus chk [REDACTED]	9
<b>Trial balance vs bank balances</b>	
BofA checking	-
Dutch BV coh	534
SVB (checking)	(231)
Bus chk [REDACTED]	5

- ▶ The Company records transactions on a cash basis with plans to apply accrual accounting post the proposed capital fundraise. Based on analysis of amounts by platform and partner, monthly revenue and cost of revenue balances presented appeared aligned/matched, but may be reported on lag estimated to be less than one month. Most operating expenses appeared expensed and paid monthly (e.g. salary, hosting, rent), but these amounts may also be on a lag of up to one month from when the expense was incurred. Certain trade show and software vendor spending were noted as prepaid up to one year in advance and expensed in full when paid. [REDACTED] **should take into consideration financial information presented during due diligence will change once accrual-basis accounting is applied. While the impact cannot be quantified, the impact will be partially limited by the Company's operating model as revenue and most expenses are received/paid monthly.**
- ▶ The Company does not perform a monthly consolidation of its Netherlands (four employees) and Singapore (one employee) operations. Management represented the Singapore operations is funded monthly via payments made directly from the US entity to the Singapore professional employer organization ("PEO"). In contrast, Management stated the Netherlands is pre-funded quarterly with a minimum \$100k bank balance retained. The Netherlands cash trial balance account is not reconciled monthly and acts a static balance, which is overstated by ~\$534k as of Sep19 (see table to the left) versus the actual bank balance. Management represented the Netherlands cash account overstatement will not result in an increase in reported FY18 or FY19 expense as the majority of the difference relates to a known reconciliation issue pre-dating FY18. Additionally, the Silicon Valley Bank account did not reconcile (bank balance \$231k higher), which Management stated was due to a double payment recorded which needs to be reversed. **We did not receive support to confirm Management representation's related to unreconciled cash differences and [REDACTED] should require that the Company reconcile cash accounts on a monthly basis post investment to ensure proper reporting.**



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### Appendix A: Revenue cash proof

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#### Revenue cash proof

Currency: \$ 000	Jan19	Feb19	Mar19	Apr19	May19	Jun19	Jul19	Aug19	Sep19
<b><u>Customer collections, estimated:</u></b>									
Revenue per trial balance	1,513	1,753	1,983	2,340	2,636	3,112	3,399	3,702	4,091
Less: Shopify payments (1)	(141)	(163)	(185)	(225)	(251)	(291)	(310)	(334)	(377)
Add-back: Incorrect service classification	1	-	0	1	23	-	-	-	-
<b>Customer collections, estimated</b>	<b>1,373</b>	<b>1,590</b>	<b>1,798</b>	<b>2,117</b>	<b>2,408</b>	<b>2,822</b>	<b>3,089</b>	<b>3,368</b>	<b>3,714</b>
<b><u>Customer collections, actual</u></b>									
Cash receipts per bank statements (2)	7,798	1,590	2,798	2,117	2,408	2,822	3,089	3,368	7,714
Less: Debt inflow	(6,425)	-	(1,000)	-	-	-	-	-	-
Less: Interbank transfers	-	-	-	-	-	-	-	-	(4,000)
<b>Customer collections, actual</b>	<b>1,373</b>	<b>1,590</b>	<b>1,798</b>	<b>2,117</b>	<b>2,408</b>	<b>2,822</b>	<b>3,089</b>	<b>3,368</b>	<b>3,714</b>
Variance (\$)	-	-	-	-	-	-	0	-	-
Variance (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

\*Only includes receipts from the Company's operating BoA account. Other accounts do not include any customer payments

As presented in the table above, we performed a "revenue cash proof" of revenue for the period Jan19 through Sep19. While a "revenue cash proof" is not a substitute for a substantive audit procedure, it is intended to provide insight into whether the reported revenue within the Company's financial statements is consistent with cash received. The results of our procedures found revenue to be reconciled to cash receipts in a reasonable manner.

As part of the revenue cash proof procedures, we examined bank statements for each of the Company's bank accounts and determined the nature of each receipt (customer transaction, debt inflow, interbank transfer, etc.). We then compared the total customer collections to reported revenue.

Notes to table above:

1. In order to reconcile reported revenue to cash collected from customers, platform payments from Shopify were subtracted from revenue recognized as Shopify remits payments on a net cash basis but the Company records revenue on a gross basis. After adjustments, the Company's reported revenue is consistent with cash collected from customers in all periods.
2. Management represented the Company's operating Bank of America account only includes receipts from customers and that no other bank accounts include customer payments.